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TO RUEHC/SECSTATE WASHDC PRIORITY 9259  
INFO RUEHOO/CHINA POSTS COLLECTIVE  
RHEHNSC/NSC WASHDC  
RUCPDOC/USDOC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 004270

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR EAP/CM AND EB  
TREASURY FOR OASIA GKEOPKE  
STATE PASS USTR  
USDOC FOR 4420  
NSC FOR DWILDER/KTONG

E.O. 12958: DECL: 11/01/2016

TAGS: ECON EFIN PGOV HK CH

SUBJECT: HONG KONG MONETARY AUTHORITY RESPONDS TO UNSCR 1718

REF: A. STATE 172816

¶B. HONG KONG 4214

Classified By: E/P Chief Laurent Charbonnet for Reasons 1.4 (b, d).

¶11. (C) Summary: In a written response to Ref A demarche, the Hong Kong Monetary Authority (HKMA) described the Hong Kong Government's (HKG) process for implementing UN Security Council Resolutions and detailed its efforts to monitor financial institutions in Hong Kong to ensure that they have implemented adequate controls against dealing with agents of "high risk" or sensitive jurisdictions and entities. HKMA also elaborated on the establishment of an Industry Working Group to share and develop industry standards and share best practices on how to prevent money laundering and terrorist financing. The full HKMA text is included below. Septel will report how other HKG departments with responsibility for implementing UNSCR 1718 have described their ongoing legislative and regulatory procedures for implementations. End summary.

¶12. (C) Begin HKMA Text:

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The Hong Kong Monetary Authority (HKMA) is fully committed to counter money laundering and terrorist financing activities including facilitation of WMD and missile proliferation.

The HKSAR has a mechanism to implement relevant UNSCRs in Hong Kong, including UNSCR #1718. In general, when an UNSCR is unanimously adopted by all UNSCR members, the Administration in Hong Kong will start preparations to draft subsidiary legislation under the United Nations Sanctions Ordinance for implementing the UNSCR. The draft subsidiary legislation will be put forward to the Legislative Council. The mechanism involves the enactment of subsidiary legislation in Hong Kong upon receiving a directive from the Central People's Government. While the HKMA is not directly involved in the legislation process, the HKMA will promptly issue a circular to alert Authorized Institutions (AIs) upon the passing of the new subsidiary legislation and require AIs to act accordingly. This may include freezing the assets of designated entities and refraining from the conduct of any financial transactions with such entities, as appropriate.

In fact, even before the enactment of new subsidiary legislation for the implementation of UNSCR 1718, the Weapons

of Mass Destruction (Control of Provision of Services) Ordinance already prohibits the provision of financial services to WMD proliferators. The HKMA reminds AIs from time to time to exercise extra caution in deciding whether to deal with high risk or sensitive jurisdictions and entities. The HKMA also examines regularly the adequacy of individual AIs, controls against dealing with such jurisdictions and entities.

#### Industry Working Group

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To help deal with money laundering and terrorist financing issues from a practical perspective and reflect industry concerns, the HKMA coordinated the establishment of an Industry Working Group (IWG) in June 2006, which includes representatives of some 20 AIs. So far the IWG has met twice. The first IWG meeting (held in June 2006) led to the formation of three user sub-groups to respectively consider:

- Specific issues relating to the application of customer due diligence (CDD) to non-retail accounts (e.g. checking of politically exposed persons and CDD on private banking and trust accounts);
- General issues relating to the CDD process and other CDD issues affecting retail banking operations (e.g. application of risk-based approach and CDD on existing accounts); and
- Issues relating to the detection and monitoring of specific types of banking transactions (e.g. correspondent banking, terrorist financing and design of management information systems for transaction monitoring).

The user sub-groups, consisting mainly of industry

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representatives, are responsible for studying the above issues with a view to promoting and developing industry standards and best practices. The user sub-group will update the IWG on their work progress from time to time, and where appropriate make recommendations via the IWG to the HKMA on the relevant issues.

Other initiatives relating to prevention of money laundering and terrorist financing:

Apart from those mentioned above, the HKMA has taken various initiatives to further strengthen the controls of the banking industry in this regard. In particular,

**Circulars:** The HKMA issued a circular on 25 September 2006 to remind AIs to take stringent measures to prevent the transfer of financial resources for WMD proliferators. AIs need to draw reference from the relevant designations by overseas authorities, including the US Executive Order 13382 list, for identifying suspicious entities that may pose higher risk to AIs in this regard. A circular was also issued in November 2005 clarifying the HKMA's supervisory standard in this area and reminding AIs to take preventive measures against WMD financing. In addition, the HKMA issued a circular to AIs on 6 October 2006 setting out a framework for formalizing the use of supervisory measures for effective enforcement of the HKMA's regulatory standards in this area;

**Executive Briefing:** The HKMA conducted two Executive Briefing Sessions on 27 September 2006 to remind senior executives of AIs to remain vigilant on money laundering and terrorist financing issues and challenges, as well as guard against WMD financing. In particular, the need for enhanced scrutiny of business transactions against countries and entities of higher money laundering/terrorist financing risk was re-iterated;

**FATF Special Recommendation (SR) VII:** The HKMA consulted the industry in the June 2006 on proposed amendments to the

HKMA's guidelines regarding the FATF's latest revision of SR VII, which requires the ordering bank in a remittance transaction to include some basic originator information (e.g. date of birth, address) in the remittance message starting from 2007; and

**Supervision of AIs' Control:** The HKMA has continued to conduct tier-1 (general) and tier-2 (in-depth) examinations of AIs on controls against money laundering and terrorist financing, as well as related thematic examinations on high-risk areas including correspondent banking and private banking. The HKMA is also implementing a risk profiling process for assessing AIs, inherent risks in this regard (i.e. analyses of AIs, customers, product and geographical locations etc.) and their risk mitigating controls, for prioritizing the HKMA's supervisory efforts in this area.

End HKMA Text.

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Cunningham